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SUBJECT: NEW ZEALAND AND CHINA TO SIGN HISTORIC AND CONTROVERSIAL
FREE TRADE AGREEMENT

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[11](#). (U) Summary: New Zealand's Prime Minister Helen Clark and Chinese Premier Wen Jiabao will sign an historic bilateral Free Trade Agreement (FTA) in Beijing on April 7, China's first free trade pact with an OECD country. Details of the agreement, the result of three years of negotiations, will not be released until after the signing ceremony. PM Clark will be leading a delegation of 150 New Zealand businesses, government officials and press in Beijing for the signing ceremony. But the timing is less than optimal as it has been juxtaposed against the negative publicity over China's recent crackdown in Tibet. Although the agreement is expected to eventually secure approval by the New Zealand Parliament, some MPs have begun to publicly distance themselves and express their disapproval, most notably Foreign Minister Winston Peters and Labour's left wing base. End Summary.

NEW ZEALAND POISED TO SIGN HISTORIC
TRADE DEAL WITH CHINA

[12](#). (U) One of the biggest trade delegations to leave New Zealand in years has been assembled for the formal signing of the NZ-China FTA in Beijing; 150 representatives of some of New Zealand's biggest businesses, including dairy giant Fonterra, will be present. But the size of the contingent could swell close to 200 once ministers, officials, local government and media representatives are included. New Zealand Trade Minister Phil Goff and Education Minister Chris Carter will also be part of the delegation, but notably absent is Foreign Minister Winston Peters.

[13](#). (U) "New Zealand's free trade agreement with China is about more than reducing tariffs - it is also a strategic move that acknowledges that the emerging superpower will become the world's biggest economy," said Prime Minister Helen Clark on the eve of her departure for an overseas trip that will conclude with the signing ceremony in Beijing. The accord is being touted as the first free trade agreement signed by China with an OECD nation, and will mark New Zealand's biggest trade deal since its 1983 agreement with

Australia (the "Closer Economic Relations" CER). China is now the second-biggest source of imports into New Zealand and the fourth-largest buyer of its exports, including dairy products, logs and wood pulp. Imports from China are valued at NZ\$5.2 billion and represent an 18.7 percent increase in 2007, the fastest pace among trading partners in the past 13 years. Australia remains New Zealand's largest bilateral trading partner (in term of total trade - exports and imports); followed by the U.S., Japan then China.

14. (U) Preliminary studies estimate the value of the FTA to NZ exporters ranges between NZ\$180 million and NZ\$280 million a year. New Zealand goods now face average tariffs of about 9.5 percent on entering China - but in the case of agriculture imports, the average tariff is more than 15 per cent. Tariffs on Chinese goods entering New Zealand are low by comparison. Ninety-five percent enter free of any duties, while the remaining tariffs on clothing, footwear and carpets are due to fall to 10 per cent by 2009. They could be eliminated altogether under the deal, raising fears of more job losses in NZ industries already in decline. The deal is likely to phase out tariffs in other key areas, and the Government is understood to have resisted Chinese efforts for freer rules surrounding the movement of labor. New Zealand trade unions have been silent thus far on the impending deal, which has led one of two informed observers to speculate that the Labour Government has asked its union supporters to hold their fire. The deal will, however, open the door to more Chinese specialists in niche occupations, such as acupuncture.

TIBET CASTS A DARK SHADOW

15. (U) The timing of the event, juxtaposed against the negative publicity brought on by China's recent crackdown in Tibet, has engendered public controversy. Some commentators posit that the Government could be courting a public backlash after refusing to release details of the trade deal until Prime Minister Helen Clark

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arrives in Beijing next week. Clark last week defended the trade agreement amid public calls to end three years of negotiations to officially protest recent violence in Tibet. Revenue Minister Peter Dunne refused to travel to Beijing for the signing, citing China's "bloody crackdown" on its Tibetan citizens but he has said he will vote for the deal.

16. (U) The March 31 New Zealand Herald-DigiPoll showed 44.7 per cent of those questioned still supported the FTA while 32.4 per cent did not. The other 22.9 per cent did not hold a strong opinion either way. After it has been signed, the FTA will be studied by the Foreign Affairs and Trade Select Committee and will then be put to a vote in Parliament. The Government remains confident that it has sufficient support to pass because it is backed by the opposition National Party. The National Party's trade spokesman Tim Groser, a former senior trade negotiator in the last government, is among those few MPs who have been briefed confidentially on the agreement.

He stated publicly that "without going into specifics I can confirm it meets the tests of being a comprehensive and high-quality agreement and in our view is strategically vital." Mr. Groser further said that "some of the talk about New Zealand wages being under-cut by a flood of Chinese workers would be revealed as groundless scaremongering when the details of the agreement were revealed." But support from some of Parliament's other parties is not so assured. Trade Minister Phil Goff has been arranging briefings on the deal's contents for other political parties, and among those spoken to have been United Future and New Zealand First.

HOW NEW ZEALAND'S POLITICAL PARTIES VIEW THE DEAL

17. (SBU) All eyes are turning now to New Zealand First leader Winston Peters - who as Foreign Minister is in a unique situation - and said he had received only one briefing on the deal but had requested another. Mr. Peters said he expected to receive that briefing in a matter of days. (Note: Winston Peters did not seek a briefing until recently despite the fact that MFAT staff have

carried out nearly all the negotiations and drafting of the agreement. End note). He said his party's position had always been that it did not see the wisdom of doing free trade agreements with low-wage economies. In the past Peters has specifically cited China as an example of a low-wage economy. "However, we are waiting for the details on this one," he said. "I've had one briefing, I've asked for a more comprehensive one. I think the devil is in the detail in these things." (Note: Winston Peters and his New Zealand First Party have long relied on an anti-Asian and anti-immigrant platform to win votes from xenophobic conservative New Zealanders. With the national election about six months away, they have returned to tired rhetoric. End Note.)

18. (U) The Greens have said they will oppose the deal and have publicly denounced Chinese actions in Tibet. The Maori Party caucus has also confirmed that they will oppose the free trade agreement with China. "There are many reasons why we oppose it," said foreign affairs spokesperson Hone Harawira, "but I guess you could sum it up by saying we support fair trade, rather than free trade." "Although we're told there may be benefits for Maori, the downsides in terms of compromises to our sovereignty, threats to the status of the Treaty (i.e., Waitangi), the impact on work standards and wage rates, and China's lack of respect for human rights, indigenous rights, and the environment, mean the downsides of any free trade agreement with China are simply unacceptable at this time," said Mr. Harawira.

COMMENT

19. (SBU) While the China FTA is expected to damage a few of the small manufacturing sectors still protected by domestic tariffs, the vast majority of NZ-China trade is already working under a de facto free trade regime, note MFAT negotiators. That is, some are quick to note, much more true of Chinese exports to New Zealand than trade

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in the other direction. Secrecy surrounding the agreement is in stark contrast to an earlier FTA with Thailand, whose details were known well in advance. Given the expected opposition to the agreement from the Greens and NZ First, Clark likely wanted to ensure that the agreement was not leaked prematurely and debated endlessly by the media during an election year. With the March crackdown in Tibet, the anticipated diplomatic coup for Helen Clark may not provide the much-hoped for political boost that Labour was counting on. The agreement may do most to weaken Labour's support with its left-wing base, labor unions and the Greens. The coincidence of the signing with continued protests over Tibet will only compound the damage. End Comment.

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